

Docket No. 160101-WS: Petition for rate increase by Utilities, Inc. of Florida and Utilities, Inc.

**Direct Testimony of Debra M. Dobiac**, Appearing on Behalf of the Staff of the Florida Public Service Commission

Date Filed: March 20, 2017

1                                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2   **COMMISSION STAFF**

3   **DIRECT TESTIMONY OF DEBRA M. DOBIAC**

4   **DOCKET NO. 160101-WS**

5   **MARCH 20, 2017**

6 **Q.     Please state your name and business address.**

7 A.     My name is Debra M. Dobiac. My business address is 2540 Shumard Oak Boulevard,  
8 Tallahassee, Florida, 32399.

9 **Q.     By who are you presently employed?**

10 A.    I am employed by the Florida Public Service Commission (FPSC or Commission) in the  
11 Office of Auditing and Performance Analysis. I have been employed by the Commission since  
12 January 2008.

13 **Q.     Please describe your current responsibilities.**

14 A.    Currently, I am a Public Utility Analyst with the responsibilities of managing regulated  
15 utility financial audits. I am also responsible for creating audit work programs to meet a specific  
16 audit purpose.

17 **Q.     Briefly review your educational and professional background.**

18 A.    I graduated with honors from Lakeland College in 1993 and have a Bachelor of Arts  
19 degree in accounting. Prior to my work at the Commission, I worked for six years in internal  
20 auditing at the Kohler Company and First American Title Insurance Company. I also have  
21 approximately 12 years of experience as an accounting manager and controller.

22 **Q.     Have you presented testimony before this Commission or any other regulatory**  
23 **agency?**

24 A.    Yes. I testified in the Aqua Utilities Florida, Inc. Rate Case, Docket No. 080121-WS and  
25 the Water Management Services, Inc. Rate Case, Docket No. 110200-WU. I provided testimony

1 for the Water Management Services, Inc. Rate Case, Docket No. 100104-WU, the Gulf Power  
2 Company Rate Cases, Docket Nos. 110138-EI and 130140-EI, and the Gulf Power Company  
3 Hedging Activities, Docket Nos. 130001-EI and 140001-EI.

4 **Q. What is the purpose of your testimony today?**

5 A. The purpose of my testimony is to sponsor the staff audit report of Utilities, Inc. of  
6 Florida (UIF or Utility), which addresses the Utility's application for a rate increase. This audit  
7 report is filed with my testimony and is identified as Exhibit DMD-1.

8 **Q. Was this audit prepared by you or under your direction?**

9 A. Yes, it was prepared under my direction.

10 **Q. Please describe the work you performed in this audit?**

11 A. The procedures that we performed in this audit are listed in the Objectives and  
12 Procedures section of the attached Exhibit DMD-1, pages 4 through 10.

13 **Q. Were there any audit findings in the audit report, Exhibit DMD-1, which address  
14 the historical 2015 amounts in the schedules prepared by the Utility in support of its filing  
15 in the current docket?**

16 A. Yes. There were 11 audit findings reported in this audit and are found in the attached  
17 Exhibit DMD-1, pages 11 through 27. These are summarized below:

18 **Finding 1 - Commission Ordered Adjustments- Cypress Lakes**

19 The 13-month average water rate base should be increased by \$37,035. The 13-month  
20 average wastewater rate base should be decreased by \$135,012. There is no effect on net  
21 depreciation expense. We compared the Commission ordered adjustments (COAs), as of  
22 December 31, 2012, from Order No. PSC-14-0283-PAA-WS, issued May 20, 2013, in Docket  
23 No. 130212-WS, to Cypress Lakes Utility, Inc.'s (CLU) supporting journal entry and noted that  
24 plant adjustments were either not recorded or recorded incorrectly on November 30, 2014. We  
25 also found that the balances of accumulated depreciation and accumulated amortization of

1 contributions in aid of construction (CIAC) were recorded on November 30, 2014 at the ordered  
2 balance as of December 31, 2012. The Utility made no adjustment to record depreciation and  
3 amortization for the 23 months in the general ledger or the minimum filing requirements  
4 (MFRs). Our recommended adjustments include this correction.

5 **Finding 2 - Commission Ordered Adjustments- Lake Utility Services**

6 The 13-month average water rate base should be increased by \$42,077. The 13-month  
7 average wastewater rate base should be increased by \$35,016. Net depreciation expense for  
8 water should be increased by \$8,261. Net depreciation expense for wastewater should be  
9 increased by \$3,117. We compared the COAs, as of June 30, 2010, from Order No. PSC-11-  
10 0514-PAA-WS, issued November 3, 2011, in Docket No. 100426-WS, to Lake Utility Services,  
11 Inc.'s (LUSI) supporting journal entry and noted that LUSI recorded the COAs in the Other  
12 Tangible Plant-Water/Sewer accounts for plant, accumulated depreciation, CIAC, and  
13 accumulated amortization of CIAC on December 31, 2011. LUSI included adjustments on MFR  
14 Schedules A-3 and B-3, which transferred the COAs from the other tangible plant accounts to the  
15 correct accounts. However, not all the COAs were included in the MFR adjustment schedules.  
16 Our recommended adjustments correct this.

17 **Finding 3 - Commission Ordered Adjustments- Marion, Orange, Pasco, Pinellas,**  
18 **and Seminole Counties**

19 The 13-month average water rate base should be decreased by \$481,461. The 13-month  
20 average wastewater rate base should be decreased by \$244,129. Net depreciation expense for  
21 water should be decreased by \$3,220. Net depreciation expense for wastewater should be  
22 increased by \$46,872. Order No. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket  
23 No. 090462-WS, established rate base as of December 31, 2008 and required Marion County to  
24 make several adjustments to specific rate base account balances. For the other four counties, rate  
25 base was established by Order No. PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket

1 No. 120209-WS, which established rate base as of December 31, 2011 and required Orange,  
2 Pasco, Pinellas, and Seminole Counties (UIF) to make several adjustments to specific rate base  
3 account balances. We compared the COAs to UIF's supporting journal entry, and noted the  
4 following.

5 1. The majority of the transactions recorded in the general ledger were not identified by  
6 County.

7 2. The COAs were not recorded in the general ledger until December 31, 2014.

8 3. We could not verify if accumulated depreciation and accumulated amortization of CIAC  
9 were recorded at the December 31, 2008 and December 31, 2011 balances, or as of December  
10 31, 2014 due to lack of detail.

11 4. The MFRs did not have any adjustments relating to the COAs.

12 We used the prior ordered balances and subsequent additions and retirements to determine the  
13 balances by county, by system, as of December 31, 2015, as noted in the recommended  
14 adjustments above.

15 **Finding 4 - Accumulated Amortization of CIAC- Pennbrooke**

16 The 13-month average wastewater rate base should be decreased by \$239,460. Net depreciation  
17 expense for wastewater should be increased by \$68,031. According to Pennbrooke's MFR  
18 Schedule A-12, the wastewater CIAC balance for the Line/Main Extension Fees is \$1,216,759  
19 and \$0 for Contributed Property of Structure and Improvements-General Plant as of December  
20 31, 2015. According to Pennbrooke's general ledger, the line/main extension fees are separated  
21 into 1) sewer force mains - \$169,978, 2) gravity mains/manholes - \$897,017, and 3) services for  
22 customers - \$149,764. Audit staff agreed with these balances.

23 According to Pennbrooke's MFR Schedule A-14, the wastewater accumulated  
24 amortization of CIAC balance for the Line/Main Extension Fees is \$911,767 and \$71,800 for  
25 Contributed Property of Structure and Improvements-General Plant as of December 31, 2015.

1 According to Pennbrooke's general ledger, the line/main extension fees are separated into 1)  
2 sewer force mains - \$114,713, 2) gravity mains/manholes - \$707,224, and 3) services for  
3 customers - \$89,830. Audit staff calculated a balance of \$505,302 for gravity mains using the  
4 correct rate as per Rule 25-30.140, Florida Administrative Code, regarding depreciation, which is  
5 a variance of \$201,922. In addition, since there is no CIAC associated with the accumulated  
6 amortization of CIAC for structure and improvements-general plant, we removed the balance of  
7 \$71,800.

#### 8 **Finding 5 - Accumulated Deferred Income Taxes**

9 This finding was provided for additional consideration by technical staff. In Order No.  
10 PSC-16-0013-PAA-SU, issued January 6, 2016, Docket 150102-WU, the appropriate ratemaking  
11 treatment for Sandalhaven's Accumulated Deferred Income Taxes (ADIT) for taxes paid on  
12 plant capacity charges was discussed. The Commission determined at that time that the debit  
13 ADITs paid on the plant capacity charges were disallowed for ratemaking purposes, citing  
14 paragraph (b)(4)(i) of the IRS Treasury Regulation 1.118-2, which provides that plant capacity  
15 charges are non-taxable CIAC if the charges were approved within 8 ½ months from the in-  
16 service date. For this proceeding, we determined the Utility's ADIT debit balances for taxes paid  
17 on plant capacity fees that were received from developers.

#### 18 **Finding 6 - Operations and Maintenance Expense- Sanlando**

19 This finding was provided for additional consideration by technical staff. During our  
20 review of Sanlando's O&M transactions, we found that NARUC Account 720-Materials and  
21 Supplies - needs to be decreased by \$12,999 to remove extraordinary and out of period expenses.  
22 The Utility states that this expense is for the demolition of a steel tank. The Utility believes that  
23 the original tank was installed in 1991, and that it should be fully depreciated at this time. We  
24 requested supporting documentation regarding the original cost of the steel tank, and as of  
25 December 19, 2016, the Utility had not provided it. Audit staff did not reduce plant in service or

1 accumulated depreciation because we could not determine the original cost of the steel tank in  
2 order to calculate the retirement.

3 **Finding 7 - Taxes Other than Income- Pennbrooke**

4 The water TOTI balance should be decreased by \$985 and the wastewater TOTI balance  
5 should be decreased by \$820. We traced the property taxes to supporting documentation and  
6 noted that a 2006 delinquent tax bill in the amount \$1,695 was paid in 2015. In addition, we  
7 determined that a tax bill of \$110 was recorded twice. We recommend an adjustment to decrease  
8 TOTI by \$1,805 (\$1,695 + \$110), \$985 for water and \$820 for wastewater.

9 **Finding 8 - Transportation**

10 This finding was provided for additional consideration by technical staff. The Utility did  
11 not make adjustments for allocating plant vehicles, the associated accumulated depreciation,  
12 depreciation expense, and transportation costs from the UIF regional office to each Florida  
13 system in the MFRs that are usually made. In prior rate proceedings for this utility and affiliates,  
14 the Commission has used the following methodology for these adjustments. The average cost of  
15 the vehicle and its associated accumulated depreciation, depreciation expense, and transportation  
16 costs is multiplied by the amount of time the employee, who is assigned to the vehicle, spends at  
17 each system divided by his total hours worked. In addition, each Florida system uses the ratio of  
18 its ERCs to the total ERCs for the State of Florida for pool vehicles and special equipment.

19 We could not determine adjustments for plant vehicles, the associated accumulated  
20 depreciation, depreciation expense, and transportation costs because the supporting  
21 documentation for the Utility's current filing for vehicle and transportation balances did not  
22 include:

- 23 1. The support for pool vehicles and special equipment,
- 24 2. The calculation for determining transportation expense per vehicle, and
- 25 3. The operators provided in the payroll support did not agree with the operators assigned to

1 the vehicles in the transportation support.

2 **Finding 9 - Allocated Plant, Accumulated Depreciation, and Depreciation Expense**

3 The 13-month average water rate base should be increased by \$379,306. The 13-month  
4 average wastewater rate base should be increase by \$223,203. Water depreciation expense  
5 should be decreased by \$46,722. Wastewater depreciation expense should be decreased of  
6 \$3,663. We noted that Utilities, Inc.'s (Company/Corporate) and UIF-regional office's COAs for  
7 plant, accumulated depreciation, and depreciation expense for each system was not reflected in  
8 the MFR rate base schedules. These adjustments from prior orders have not been recorded on  
9 the Company's books. We calculated the adjustments by utilizing the restatement schedules  
10 provided by the Utility.

11 We also verified that the Phoenix Project depreciation life was ten years as per  
12 Commission Order No. PSC-14-0521-FOF-WS.

13 We reviewed plant, accumulated depreciation, and depreciation expense for corporate,  
14 regional, and UA balances for each water and wastewater system in Florida. We allocated the  
15 corporate and regional balances, based upon the appropriate ERCs. We noted that there were no  
16 MFR adjustments for allocated plant, but adjustments were noted for the Phoenix Project. The  
17 adjustment for the Phoenix Project was to account for the difference between the Commission  
18 ten year depreciation life and the Utility's eight year depreciation life.

19 **Finding 10 - Allocated Operations and Maintenance Expense**

20 Water expenses should be increased by \$10,519 and wastewater expenses should be  
21 increased by \$61,143, pending the outcome of the Mid-County and Sanlando issues discussed  
22 below. We reconciled the allocated expenses from the corporate and regional offices to the UA  
23 ledgers for each Florida system. We reviewed the corporate and regional expense accounts, and  
24 calculated the effect on each system's O&M expense based on ERCs. We also removed  
25 disallowed expenses such as Account No. 5795 – Contributions, Account No. 5870 – Holiday



1 Events/Picnics, and Account No. 5875 – Kitchen Supplies.

2 We also noted that Mid-County and Sanlando had material O&M increases of \$57,334  
3 (wastewater only) and \$64,901 (\$35,968-water, \$28,933- wastewater), respectively. The Utility  
4 did not provide sufficient support for these increases. If the Commission determines to remove  
5 the effect of these, the adjustments would be a decrease of \$25,449 (\$10,519 - \$35,968) for water  
6 expenses and a decrease of \$25,124 (\$61,143 - \$57,334 - \$28,933) for wastewater expenses.

7 **Finding 11 - Payroll, Benefits, and Taxes**

8 This finding was provided for additional consideration by technical staff. The Utility did  
9 not make adjustments for allocating employees' salaries, benefits, and payroll taxes from the  
10 corporate and regional offices in the MFRs that are usually made. In prior rate proceedings for  
11 this utility and affiliates, the Commission has used the following methodology for these  
12 adjustments. The Company would provide a list of all employees with their most current  
13 annualized salary, associated payroll taxes, and a calculation for benefits per employee. These  
14 amounts are allocated based on the ERC per system divided by the Company total. The  
15 operators and call center personnel are allocated by the number of hours spent at each system  
16 divided by the employee's total hours. The schedule was then compared to the costs recorded in  
17 the UA ledger by division/system.

18 In the current rate case, the Company did not provide the information needed as  
19 described above to audit staff. The payroll information that was provided did not facilitate us  
20 determining the proper adjustments.

21 **Q. Does that conclude your testimony?**

22 A. Yes, it does.

23

24

25

State of Florida



## Public Service Commission

Office of Auditing and Performance Analysis  
Bureau of Auditing  
Tallahassee District Office

### Auditor's Report

Utilities, Inc. of Florida  
Rate Case Audit

Twelve Months Ended December 31, 2015

Docket No. 160101-WS  
Audit Control No. 16-259-1-1  
November 29, 2016

Handwritten signature of Debra Dobiak in blue ink.

Debra Dobiak  
Audit Manager

Handwritten signature of Donna D. Brown in black ink.

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Gabriela M. Leon  
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Handwritten signature of Hyma Vedula in black ink.

Hyma Vedula  
Audit Staff

Handwritten signature of Marisa N. Glover in blue ink.

Marisa N. Glover  
Reviewer

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## Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated September 15, 2016. We have applied these procedures to the attached schedules prepared by Utilities, Inc. of Florida in support of its filing for rate relief in Docket No. 160101-WS.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definitions

Utility refers to Utilities, Inc. of Florida (UIF), which is the consolidation of all the utility systems owned by Utilities Inc. located in Florida.

The term “Company” refers to Utilities, Inc., the parent of Utilities, Inc. of Florida.

Prior rate case refers to prior subsidiary rate cases.

Corporate refers to the headquarters located in Northbrook, Illinois.

Regional refers to the headquarters located in Altamonte Springs, Florida.

ERC refers to the Equivalent Residential Connections as defined by Commission Rule 25-30.055, Florida Administrative Code. (F.A.C.)

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts as adopted by Commission Rule 25-30.115 – Uniform System of Accounts for Water and Wastewater Utilities, F.A.C.

#### Background

Utilities, Inc. of Florida is a Class A utility providing service to approximately 34,469 water and 32,431 wastewater customers in Charlotte, Highlands, Lee, Lake, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties. The test year established for final rates is the historical 13-month average period ended December 31, 2015.

The Utility petitioned and the Commission approved a request for a name change and corporate reorganization under Docket 150235-WS, Order No. PSC-16-0143-FOF-WS, issued on April 12, 2016. The order does not authorize any changes to prior governing orders, commitments or other obligations of service of each of the individual utilities affected by this docket. The systems of each of the former utilities are now organized by county. The names for all certificates across the ten counties were consolidated and changed to Utilities, Inc. of Florida.

The Company allocates its costs to each of its utility subsidiaries based on ERCs. Each subsidiary receives costs based on the ratio of its ERC per system to the total ERCs at the corporate level for the Northbrook, Illinois costs. Each subsidiary also receives costs based on the ratio of its ERC per system to the total ERCs at the regional level for the Altamonte Springs, Florida costs. The Company's allocated costs were last audited in Docket No. 150102-SU and established the corporate and regional plant and accumulated depreciation balances as of December 31, 2014.

The Utility's general ledger consists of three sub-ledgers, the AA (direct ledger), the UA (allocation ledger), and the UR (Commission adjustment ledger). The allocated costs described above are posted to the Utility's UA ledger. Each subsidiary's direct costs are posted to the Utility's AA and UR ledgers. The subsidiaries' rates and rate base were last established in the following Commission Orders:

1. Cypress Lakes - Order No. PSC-14-0283-PAA-WS issued in Docket No. 130212-WS with a test year ended 12/31/2012;
2. Eagle Ridge - Order No. PSC-11-0587-PAA-SU issued in Docket No. 110153-SU with a test year ended 12/31/2010;
3. Labrador - Order No. PSC-15-0208-PAA-WS issued in Docket No. 140135-WS with a test year ended 12/31/2013;
4. Lake Placid - Order No. PSC-14-0335-PAA-WS issued in Docket No. 130243-WS with a test year ended 12/31/2012;
5. Longwood - Order No. PSC-10-0407-PAA-SU issued in Docket No. 090381-SU with a test year ended 12/31/2008;
6. Lake Utility Services - Order No. PSC-11-0514-PAA-WS issued in Docket No. 100426-WS with a test year ended 06/30/2010;
7. Mid-County - Order No. PSC-09-0373-PAA-SU issued in Docket No.08025-SU with a test year ended 12/31/2007;
8. Pennbrooke - Order No. PSC-12-0667-PAA-WS issued in Docket No. 120037-WS with a test year ended 09/30/2011;
9. Sandalhaven - Order No. PSC-16-0013-PAA-SU issued in Docket No. 150102-SU with a test year ended 12/31/2014;
10. Sanlando - Order No. PSC-15-0233-PAA-WS issued in Docket No. 140060-SU with a test year ended 12/31/2013;
11. Tierra Verde - Order No PSC-09-0372-PAA-SU issued in Docket No. 080248-SU with a test year ended 12/31/2007;
12. Marion County - Order No. PSC-10-0585-PAA-WS issued in Docket No. 090462-WS with a test year ended 12/31/2008;
13. Orange, Pinellas, Pasco and Seminole Counties - Order No. PSC-14-0025-PAA-WS issued in Docket No. 120209-WS with a test year ended 12/31/2011.

## **Rate Base**

### Utility Plant in Service

**Objectives:** The objectives were to determine whether utility plant in service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are authentic, recorded at original cost, and properly classified as a capital item in compliance with Commission rules and the NARUC USOA, 3) Retirements are made when a replacement item is put into service, 4) Adjustments required in the Utility's last rate case proceeding were recorded in its books and records, and 5) Where plant additions were allocated from the corporate and regional offices, the basis of the allocation was reviewed.

**Procedures:** We reconciled the UPIS accounts presented in the filing to the general ledger. We reconciled the beginning balances, including ordered adjustments, in the general ledger to the Orders issued for each subsidiary's prior rate case. We verified that Commission ordered

adjustments were posted to the general ledger. We scheduled utility additions and retirements since the last rate proceeding to determine the UPIS balance as of December 31, 2015. We requested support for the Utility's adjustments and traced them to the filing. We recalculated the 13-month average balance for the filing. We traced a sample of additions and retirements from the AA and UR ledgers to source documentation and we verified that additions were recorded at original cost and that retirements were properly posted. Findings 1 through 3 discuss UPIS.

In addition, we reviewed and sampled the corporate and regional additions for the period January 1, 2015, through December 31, 2015. We ensured that retirements were made when a capital item was removed or replaced. We reconciled the differences between the audited allocated balances and the subsidiaries' UA ledgers to the rate base adjustments in each system's filing. Findings 8 and 9 discuss our recommended adjustments to allocated UPIS.

### Land & Land Rights

**Objectives:** The objectives were to determine whether utility land is recorded at original cost, is used for utility operation, and is owned or secured under a long-term lease.

**Procedures:** We reconciled the land accounts presented in the filing to the general ledger. We reconciled the beginning balances, including ordered adjustments, in the general ledger to the Orders issued for each subsidiary's prior rate case. We determined the land balance as of December 31, 2015. We recalculated the 13-month average balance for the filing. We searched the property records of the County Clerk's Office in each County for utility related activity. No exceptions were noted.

We requested land deeds for any property purchased in 2015, as it related to the allocated offices. We determined that there have been no changes to land since the last rate case in Docket No. 150102-SU. No exceptions were noted.

### Contributions-in-Aid-of-Construction

**Objectives:** The objectives were to determine whether utility contributions-in-aid-of-construction (CIAC) balances are properly stated, are reflective of the service availability charges authorized in the Utility's Commission approved tariffs, and the adjustments required in the Utility's last rate proceeding were recorded in its books and records.

**Procedures:** We reconciled the CIAC accounts presented in the filing to the general ledger. We reconciled the beginning balances, including ordered adjustments, in the general ledger to the Orders issued for each subsidiary's prior rate case. We verified whether the Utility included the Commission adjustments from the order. We scheduled utility additions and retirements since the last rate proceeding to determine the CIAC balance as of December 31, 2015. We requested support for the Utility's adjustments and traced them to the filing. We recalculated the 13-month average balance for the filing. We traced a sample of additions to the Utility's CIAC Tap Fee schedule and traced service availability charges to the Utility's approved tariffs. We reviewed CIAC agreements, and inquired about new special agreements, developer agreements, and donated property. Findings 1 through 3 discuss CIAC.

### Accumulated Depreciation

**Objectives:** The objectives were to determine whether: 1) Accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USOA, 2) Depreciation accruals are calculated using the Commission's authorized rates and that retirements are properly recorded, 3) Adjustments required in the Utility's last rate case proceeding were recorded in its books and records, and 4) Where accruals to accumulated depreciation were allocated from the corporate and regional offices, the basis of the allocation is reviewed.

**Procedures:** We reconciled the accumulated depreciation accounts presented in the filing to the general ledger. We reconciled the beginning balances, including ordered adjustments, in the general ledger to the Orders issued for each subsidiary's prior rate case. We verified whether the Utility included the Commission adjustments from the order. We scheduled utility accruals and retirements since the last rate proceeding to determine the accumulated depreciation balance as of December 31, 2015. We requested support for the Utility's adjustments and traced them to the filing. We recalculated the 13-month average balance for the filing. We calculated accumulated depreciation accruals from the AA and UR ledgers using the rates authorized in Rule 25-30.140 – Depreciation, F.A.C. and compared our balance to the balances in the AA and UR ledgers and the filing. Findings 1 through 3 discuss accumulated depreciation.

In addition, we recalculated the corporate and regional accruals to accumulated depreciation for the period January 1, 2015, through December 31, 2015 using rates from prior audits. We ensured that retirements to accumulated depreciation were made when a capital item was removed or replaced. We reconciled the differences between the audited allocated balances and the subsidiaries' UA ledgers to the rate base adjustments in each system's filing. Findings 8 and 9 discuss allocated accumulated depreciation.

### Accumulated Amortization of CIAC

**Objectives:** The objectives were to determine whether accumulated amortization of CIAC balances were properly stated, that annual accruals were reflected of the depreciation rates and were in compliance with Commission rules and orders, and that the adjustments required in the Utility's last rate case proceeding were recorded in its books and records.

**Procedures:** We reconciled the accumulated amortization of CIAC accounts presented in the filing to the general ledger. We reconciled the beginning balances, including ordered adjustments, in the general ledger to the Orders issued for each subsidiary's prior rate case. We verified whether the Utility included the Commission adjustments from the order. We scheduled utility accruals and retirements since the last rate proceeding to determine the accumulated amortization of CIAC balance as of December 31, 2015. We requested support for the Utility's adjustments and traced them to the filing. We recalculated the 13-month average balance for the filing. We calculated accumulated amortization of CIAC accruals using the rates authorized in Rule 25-30.140, F.A.C. and compared our balance to the balances in the AA and UR ledgers and the filing. Findings 1 through 4 discuss accumulated amortization of CIAC.



## Working Capital

**Objectives:** The objectives were to determine whether the Utility's working capital balance is properly calculated in compliance with Commission rules, and to determine whether the working capital adjustments in the filings were based on the correct affiliate companies' ledger balances using the correct allocation factors.

**Procedures:** We reconciled the working capital accounts presented in the filing to the general ledger. We recalculated the 13-month average working capital allowance balance for the filing. We reconciled cash balances to the bank statements, and tested miscellaneous and current accrued liabilities for December 2015. We also calculated the corporate and regional allocated deferred account balances, and verified the ERC allocation factors. No exceptions were noted.

## **Capital Structure**

### Debt and Equity Components

**Objectives:** The objectives were to determine whether the debt and equity components of the Company's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are based on the weighted percent of the Company's financial statements audited by Ernst and Young LLP and the Commission's authorized rate of return.

**Procedures:** We verified the Company's long-term debt, short-term debt, and common equity to the 2015 audited financial statements and the general ledger. We traced the long-term and short-term-debt, as of December 31, 2014, to the prior audit in Docket No. 150102-SU. The equity rate filed was compared to Order No. PSC-16-0254-PAA-WS. No exceptions were noted.

### Customer Deposits

**Objectives:** The objectives were to determine whether: 1) the utility is collecting and accounting for customer deposits authorized in its Commission approved tariff for the test year ended December 31, 2015, and 2) the utility is calculating and remitting interest on customer deposits per Commission Rule 25-30.11, F.A.C.

**Procedures:** We reviewed the Utility's MFR Schedule D-7, and reconciled the ending balance from the prior audits, to the beginning balance in the current audit. We also reconciled deposits received and refunded, including accrued interest, from the MFR Schedule D-7 to the general ledger. No exceptions were noted.

### Accumulated Deferred Income Taxes and Income Taxes

**Objectives:** The objective was to audit utility specific accumulated deferred income taxes (ADIT) for each system and determine the appropriate balances for ADIT for the test year ended December 31, 2015.

**Procedures:** We reviewed the Utility's MFR Schedules C-6 and D-2, and traced them to the Utility's supporting schedule and to the general ledger. We reviewed the federal tax returns for plant, accumulated depreciation balances, and tax depreciation expense. We tested a sample of deferred income tax expenses from MFR Schedule C-5 to the MFR Schedule B-3 to verify the correct state and federal tax amount was used. We recalculated the income tax provision from

the MFR Schedule B-1 to the MFR Schedule C-2 to determine whether the income taxes were calculated correctly. Audit staff requested any ADIT information for 2015 associated with Pasco County's wastewater treatment plant. As of November 30, 2016, there have been no retirements associated with this plant. Finding 5 discusses ADITs.

## **Net Operating Income**

### **Operating Revenue**

**Objectives:** The objectives were to determine whether: 1) Utility charges were those approved by the Commission in the Utility's current authorized tariff for both water and wastewater, and 2) Revenue earned from utility property during the test year was recorded and properly classified in compliance with Commission rules and the NARUC USOA.

**Procedures:** We reconciled the water and wastewater revenue accounts presented in the filing to the general ledger. We reviewed a sample of customer accounts from the billing register for proper customer classification, use of approved tariffs, and miscellaneous service changes. We tested the reasonableness of the utility revenues by multiplying the average consumption by the tariff rate for each customer class in the billing register. No exceptions were noted.

### **Operation and Maintenance Expense**

**Objectives:** The objectives were to determine whether direct and allocated operation and maintenance (O&M) expenses were properly recorded in compliance with Commission rules and the NARUC USOA, and were reasonable and prudent for ongoing utility operations.

**Procedures:** We reconciled the O&M expense accounts, which included direct and allocated costs, presented in the filing to the general ledger. We reviewed a sample of O&M expense invoices from the AA ledger for proper amount, period, classification, recurring nature, and whether the expense was utility related. We verified the proper allocation of expenses between water and wastewater operations. Finding 6 discusses O&M expense.

We verified O&M expense accounts allocated for the 12-months ended December 31, 2015, by tracing a sample of O&M expenses to source documents. We reviewed invoices for proper amount, period, classification, and recurring nature. We reconciled the differences between the audited allocated balances and the subsidiaries' UA ledgers to the net operating income (NOI) adjustments in the filings. Finding 10 discusses allocated O&M expenses.

Salaries, benefits, and transportation expenses from the corporate office, regional office, call center locations, and Florida offices by employee were recalculated and reconciled to payroll department data. The allocation factors were reviewed for applicability to the type of job. We tested the benefit and tax calculations. We reconciled the differences between the audited allocated balances and the subsidiaries' UA ledgers to the NOI adjustments in the filings. Findings 8 and 11 discuss transportation, salaries, and benefits.

### **Depreciation and Amortization**

**Objectives:** The objective was to determine whether depreciation for both direct and allocated UPIS was properly recorded in compliance with Commission rules and that it accurately

represented the depreciation of UPIS assets and the amortization of the utility CIAC assets for ongoing utility operations.

**Procedures:** We reconciled the depreciation and amortization expense accounts presented in the filing to the general ledger. We calculated depreciation and amortization expense for the test year using the rates prescribed in Rule 25-30.140, F.A.C. and compared our amounts to the amounts reflected in the AA and UR ledgers and the filing. Findings 2 through 4 discuss net depreciation.

We determined that the Company's calculation of depreciation expense was consistent with the balances in the ledger and the rates used in prior audits. We reconciled the differences between the audited allocated balances and the subsidiaries' UA ledgers to the NOI adjustments in each system's filing. Findings 8 and 9 discuss allocated depreciation expense.

### Taxes Other than Income

**Objectives:** The objectives were to determine 1) The appropriate amounts for taxes other than income tax (TOTI) for the test year ended December 31, 2015, and 2) The Company's allocation of TOTI represented the actual taxes recorded in the ledger, and that they were allocated using the appropriate ERC factors.

**Procedures:** We reconciled the components of taxes other than income tax expense accounts presented in the filing to the general ledger. We recalculated regulatory assessment fees based on audited revenues. We traced real estate and tangible property taxes to source documents, and ensured that these taxes included the maximum discount and are only for utility property. Finding 7 discusses TOTI.

We determined the real estate taxes for the Company and the ERC factors used. We recalculated payroll taxes based on allocated payroll and compared it to the amounts included in each subsidiary's UA ledgers. We reconciled the differences between the audited allocated balances and the subsidiaries' UA ledgers to the NOI adjustments in the filings. Finding 11 discusses payroll taxes.

### **Other**

#### Analytical Review

**Objectives:** The objectives were to perform an analytical review of rate base and utility expenses to identify unusual trends or amounts.

**Procedures:** We performed a trend analysis on the rate base components and O&M expenses for the years 2009 to 2015 for all UI subsidiaries. Any anomalies were reviewed when detailed testing was performed.

In addition, we compared the 2014 plant in service and accumulated depreciation balances from the prior audit in Docket No. 150102-SU to the 2015 balances for the corporate and regional offices. We also compared the 2014 O&M expense balances from the prior audit to the 2015 balances for the corporate and regional offices. Any material changes were tested. No exceptions were noted.

## Audit Findings

### **Finding 1: Commission Ordered Adjustments – Cypress Lakes**

**Audit Analysis:** Order No. PSC-14-0283-PAA-WS, issued May 30, 2014, in Docket No. 130212-WS, established rate base as of December 31, 2012 and required Cypress Lakes Utility, Inc. (CLU) to make several adjustments to specific rate base account balances. We compared the Commission ordered adjustments (COAs) to CLU's supporting journal entry and noted that CLU did not record the COAs as of December 31, 2012 until November 30, 2014.

We found that plant adjustments were either not recorded or recorded incorrectly. We also found that the accumulated depreciation and accumulated amortization of CIAC was recorded at the December 31, 2012 balance, and was not carried forward the 23 months to November 30, 2014. Table 1-1 following this finding reflects our adjustments.

Our adjustments only pertain to the direct costs COA, which are posted to CLU's AA ledger. See Finding 9 for the allocated COAs. Table 1-1 following this finding details the adjustments.

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** The 13-month average water rate base adjustment is an increase of \$37,035. The 13-month average wastewater rate base adjustment is a decrease of \$135,012. There is no effect on net depreciation expense.

**Table 1-1**

OBJ	NARUC	ACCOUNT TITLE	CLU recorded COA	Audit Adjustment	Audit COA balance
<b>Water</b>					
1090	309.2	SUPPLY MAINS	\$ -	\$ 23,660	\$ 23,660
1115	320.3	WATER TREATMENT EQPT	(1,641)	(341)	(1,981)
1170	339.4	OTH PLT&MISC EQUIP	-	596	596
1885	108.1	ACC DEPR-SUPPLY MAINS	-	(4,338)	(4,338)
1900	108.1	ACC DEPR-ELECT PUMP EQU	4,294	(3,493)	801
1910	108.1	ACC DEPR-WATER TREATMEN	828	341	1,169
1920	108.1	ACC DEPR-TRANS & DISTR	(14,150)	(6,283)	(20,433)
1925	108.1	ACC DEPR-SERVICE LINES	(6,457)	(2,250)	(8,707)
1940	108.1	ACC DEPR-HYDRANTS	(1,421)	(496)	(1,917)
1965	108.1	ACC DEPR-OTH PLANT&MISC	-	(145)	(145)
3350	271	CIAC-METERS	-	(3,625)	(3,625)
3885	272	ACC AMORT TRANS & DISTR	18,063	6,283	24,346
3890	272	ACC AMORT SERVICE LINES	6,457	2,250	8,707
3895	272	ACC AMORT METERS	-	825	825
3905	272	ACC AMORT HYDRANTS	1,421	496	1,917
4005	272	ACC AMORT WTR PLT MTR F	(323)	(119)	(442)
<b>Net Rate Base - Water</b>			<b>\$ 84,853</b>	<b>\$ 37,045</b>	<b>\$ 121,898</b>
<b>Wastewater</b>					
1315	354.7	STRUCT/IMPRV GEN PLT	\$ (382,687)	\$ (652,831)	\$(1,035,518)
1400	380.4	TREAT/DISP EQUIP TRT PL	278,788	850,500	1,129,288
1475	394.1	LABORATORY EQPT	-	(323)	(323)
2055	108.1	ACC DEPR-STRUCT/IMPRV P	(30,434)	30,434	-
2060	108.1	ACC DEPR-STRUCT/IMPRV T	71,303	(71,303)	-
2075	108.1	ACC DEPR-STRUCT/IMPRV G	-	216,496	216,496
2090	108.1	ACC DEPR-PWR GEN EQP TR	(16,333)	(7,667)	(24,000)
2105	108.1	ACC DEPR-SEWER FORCE MA	(10,096)	(4,278)	(14,374)
2110	108.1	ACC DEPR-SEWER GRA VITY	(36,942)	(7,381)	(44,323)
2113	108.1	ACC DEPR-MANHOLES	-	(92,939)	(92,939)
2140	108.1	ACC DEPR-PUMP EQP PUMP PLT	-	(41,693)	(41,693)
2160	108.1	ACC DEPR-TREAT/DISP EQP TRT PLT	(67,680)	(378,081)	(445,762)
2235	108.1	ACC DEPR-LABORATORY EQPT	-	373	373
4050	272	ACC AMORTSTRUCT/IMPRV P	30,434	8,286	38,720
4100	272	ACC AMORT SEWER FORCE M	10,096	4,278	14,374
4105	272	ACC AMORT SEWER GRA VITY	36,942	11,000	47,942
4265	272	ACC AMORT SEWER-TAP	310	119	429
<b>Net Rate Base - Wastewater</b>			<b>\$ (116,299)</b>	<b>\$ (135,012)</b>	<b>\$ (251,311)</b>

**Finding 2: Commission Ordered Adjustments – Lake Utility Services**

**Audit Analysis:** Order No. PSC-11-0514-PAA-WS, issued November 3, 2011, in Docket No. 100426-WS, established rate base as of June 30, 2010 and required Lake Utility Services, Inc. (LUSI) to make several adjustments to specific rate base account balances. We compared the Commission ordered adjustments (COAs) to LUSI's supporting journal entry and noted that LUSI recorded the COAs in the Other Tangible Plant-Water/Sewer accounts for plant, accumulated depreciation, CIAC, and accumulated amortization of CIAC on December 31, 2011.

Audit staff noted that LUSI included adjustments on MFR Schedule A-3 and MFR Schedule B-3, to transfer the COAs from the other tangible plant accounts to the correct accounts. We agree with these adjustments. However, not all the COAs, from the order mentioned above, were included in the MFR adjustment schedules.

Table 2-1 following this finding details the adjustments. Our adjustments only pertain to the direct costs COA, which are posted to LUSI's AA ledger. See Finding 9 for the allocated COAs.

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** The 13-month average water rate base adjustment is an increase of \$42,077. The 13-month average wastewater rate base adjustment is an increase of \$35,016. Net depreciation expense for water should be increased by \$8,261. Net depreciation expense for wastewater should be increased by \$3,117.

**Table 2-1**

		MFR 13-Mo Avg		Audit 13-Mo Avg
<b>LUSI</b>	<b>W</b>	<b>\$ (32,927)</b>	<b>\$ 42,077</b>	<b>\$ 9,151</b>
	UPIS	25,856	24,235	50,091
	AD	(20,469)	146,639	126,170
	CIAC	(183,905)	(20,200)	(204,105)
	AA of CIAC	145,591	(108,597)	36,994
<b>LUSI</b>	<b>WW</b>	<b>\$ (11,228)</b>	<b>\$ 35,016</b>	<b>\$ 23,788</b>
	UPIS	(53,895)	2,579	(51,316)
	AD	42,667	8,499	51,167
	CIAC	-	32,579	32,579
	AA of CIAC	-	(8,642)	(8,642)
	<b>Net Rate Base:</b>	<b>\$ (44,155)</b>	<b>\$ 77,093</b>	<b>\$ 32,938</b>
<b>LUSI</b>	<b>W</b>	<b>(17,122)</b>	<b>8,261</b>	<b>(8,861)</b>
<b>LUSI</b>	<b>WW</b>	<b>(5,839)</b>	<b>3,117</b>	<b>(2,722)</b>
	<b>Net Depreciation Expense:</b>	<b>\$ (22,961)</b>	<b>\$ 11,378</b>	<b>\$ (11,583)</b>

### **Finding 3: Commission Ordered Adjustments – Marion, Orange, Pasco, Pinellas, and Seminole Counties**

**Audit Analysis:** Order No. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, established rate base as of December 31, 2008 and required Marion County to make several adjustments to specific rate base account balances. For the other four counties, rate base is superseded by Order No. PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, which established rate base as of December 31, 2011 and required Orange, Pasco, Pinellas, and Seminole Counties (UIF) to make several adjustments to specific rate base account balances. We compared the COAs to UIF's supporting journal entry, and noted the following.

1. The majority of the transactions were not identified by County.
2. The COAs were not recorded until December 31, 2014.
3. We could not verify if accumulated depreciation and accumulated amortization of CIAC were recorded at the December 31, 2008 and December 31, 2011 balances, or as of December 31, 2014.
4. The MFRs did not have any adjustments relating to the COAs.
5. Audit staff used the prior ordered balances and subsequent additions and retirements to determine the balances by county, by system as of December 31, 2015.

See Finding 9 for the allocated COAs.

Table 3-1 following this finding compares the audited balances to the MFR balances as of December 31, 2015.

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** The 13-month average water rate base adjustment is a decrease of \$481,461. The 13-month average wastewater rate base adjustment is a decrease of \$244,129. Net depreciation expense for water should be decreased by \$3,220. Net depreciation expense for wastewater should be increased by \$46,872.

**Table 3-1**

		MFR		Audit		MFR		Audit	
		12/31/2015		12/31/2015		13-mo avg		13-mo avg	
<b>MARION</b>	<b>W</b>	\$ 729,448	\$ 167,570	\$ 897,018	\$ 624,381	\$ 167,019	\$ 791,400		
	UPIS	1,346,912	66,418	1,413,330	1,225,468	66,296	1,291,764		
	AD	(553,914)	92,431	(461,483)	(537,137)	93,584	(443,553)		
	CIAC	(184,975)	23,661	(161,314)	(184,713)	23,668	(161,045)		
	AA of CIAC	121,425	(14,940)	106,485	120,763	(16,529)	104,234		
<b>MARION</b>	<b>WW</b>	\$ 111,396	\$ 27,242	\$ 138,638	\$ 115,794	\$ 25,193	\$ 140,987		
	UPIS	224,472	28,595	253,067	221,159	28,777	249,936		
	AD	(107,820)	(1,298)	(109,118)	(100,023)	(3,524)	(103,547)		
	CIAC	(7,200)	-	(7,200)	(7,200)	-	(7,200)		
	AA of CIAC	1,944	(55)	1,889	1,858	(59)	1,799		
<b>ORANGE</b>	<b>W</b>	\$ 101,217	\$ 37,215	\$ 138,432	\$ 108,112	\$ 39,630	\$ 147,742		
	UPIS	310,354	16,489	326,843	306,745	16,722	323,467		
	AD	(185,663)	(3,251)	(188,914)	(176,292)	681	(175,611)		
	CIAC	(9,937)	(28,844)	(38,781)	(9,937)	(28,844)	(38,781)		
	AA of CIAC	(13,537)	52,820	39,283	(12,404)	51,072	38,668		
<b>PASCO</b>	<b>W</b>	\$ 2,746,283	\$ 316,849	\$ 3,063,132	\$ 2,686,213	\$ 324,926	\$ 3,011,139		
	UPIS	4,793,487	739,409	5,532,896	4,687,597	741,722	5,429,319		
	AD	(1,674,813)	(571,937)	(2,246,750)	(1,614,316)	(567,821)	(2,182,137)		
	CIAC	(722,075)	111,089	(610,986)	(721,735)	111,100	(610,635)		
	AA of CIAC	349,684	38,288	387,972	334,667	39,924	374,591		
<b>PASCO</b>	<b>WW</b>	\$ 1,243,847	\$ (675,147)	\$ 568,701	\$ 1,228,599	\$ (660,625)	\$ 567,974		
	UPIS	1,062,330	664,161	1,726,491	1,042,622	666,675	1,709,297		
	AD	404,704	(1,404,578)	(999,874)	423,671	(1,393,033)	(969,362)		
	CIAC	(633,772)	46,517	(587,255)	(633,772)	46,517	(587,255)		
	AA of CIAC	410,585	18,753	429,338	396,078	19,216	415,294		
<b>PINELLAS</b>	<b>W</b>	\$ 681,002	\$ 6,775	\$ 687,777	\$ 681,827	\$ 9,782	\$ 691,609		
	UPIS	915,671	101,158	1,016,829	907,837	101,538	1,009,375		
	AD	(186,267)	(75,246)	(261,513)	(175,392)	(72,884)	(248,276)		
	CIAC	(157,390)	18,543	(138,847)	(157,393)	18,546	(138,847)		
	AA of CIAC	108,988	(37,679)	71,309	106,775	(37,418)	69,357		
<b>SEMINOLE</b>	<b>W</b>	\$ 4,032,733	\$ (1,026,948)	\$ 3,005,785	\$ 4,007,802	\$ (1,022,818)	\$ 2,984,984		
	UPIS	5,170,348	557,554	5,727,902	5,091,602	559,517	5,651,119		
	AD	(1,080,317)	(1,563,332)	(2,643,649)	(1,006,120)	(1,563,524)	(2,569,644)		
	CIAC	(1,089,671)	158,639	(931,032)	(1,088,378)	158,502	(929,876)		
	AA of CIAC	1,032,373	(179,810)	852,563	1,010,698	(177,314)	833,384		
<b>SEMINOLE</b>	<b>WW</b>	\$ 1,476,909	\$ 357,098	\$ 1,834,007	\$ 1,464,282	\$ 391,303	\$ 1,855,585		
	UPIS	2,272,125	1,191,061	3,463,186	2,259,021	1,194,092	3,453,113		
	AD	(409,130)	(1,079,027)	(1,488,157)	(384,628)	(1,050,850)	(1,435,478)		
	CIAC	(1,043,254)	226,651	(816,603)	(1,043,254)	226,651	(816,603)		
	AA of CIAC	657,168	18,413	675,581	633,143	21,410	654,553		
<b>Total Net Rate Base:</b>		<b>\$ 11,122,835</b>	<b>\$ (789,346)</b>	<b>\$ 10,333,489</b>	<b>\$ 10,917,010</b>	<b>\$ (725,590)</b>	<b>\$ 10,191,420</b>		

		MFR		Audit	
		12/31/2015		12/31/2015	
<b>MARION</b>	<b>W</b>	\$ 59,737	\$ (16,246)	\$ 43,491	
<b>MARION</b>	<b>WW</b>	\$ 32,464	\$ (20,481)	\$ 11,983	
<b>ORANGE</b>	<b>W</b>	\$ 12,566	\$ (1,854)	\$ 10,712	
<b>PASCO</b>	<b>W</b>	\$ 173,574	\$ (9,104)	\$ 164,470	
<b>PASCO</b>	<b>WW</b>	\$ 52,692	\$ (4,890)	\$ 47,802	
<b>PINELLAS</b>	<b>W</b>	\$ 29,499	\$ (2,615)	\$ 26,884	
<b>SEMINOLE</b>	<b>W</b>	\$ 145,280	\$ 26,599	\$ 171,879	
<b>SEMINOLE</b>	<b>WW</b>	\$ 10,387	\$ 72,343	\$ 82,730	
<b>Net Depreciation Expense:</b>		<b>\$ 516,199</b>	<b>\$ 43,752</b>	<b>\$ 559,951</b>	



**Finding 4: Accumulated Amortization of CIAC - Pennbrooke**

**Audit Analysis:** According to Pennbrooke’s MFR Schedule A-12, the wastewater CIAC balance for the Line/Main Extension Fees is \$1,216,759 and \$0 for Contributed Property as of December 31, 2015. According to Pennbrooke’s general ledger, the line/main extension fees are separated into 1) sewer force mains - \$169,978, 2) gravity mains/manholes - \$897,017, and 3) services for customers - \$149,764. Audit staff agreed with these balances.

According to Pennbrooke’s MFR Schedule A-14, the wastewater accumulated amortization of CIAC balance for the Line/Main Extension Fees is \$911,767 and \$71,800 for Contributed Property as of December 31, 2015. According to Pennbrooke’s general ledger, the line/main extension fees are separated into 1) sewer force mains - \$114,713, 2) gravity mains/manholes - \$707,224, and 3) services for customers - \$89,830. Audit staff calculated a balance of \$505,302 for gravity mains using the correct rate as per Rule 25-30.140 – Depreciation, F.A.C., which is a variance of \$201,922. In addition, since there is no CIAC associated with the accumulated amortization of CIAC for contributed property, we removed the balance of \$71,800.

Table 4-1 following this finding details the adjustments.

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** The 13-month average wastewater rate base adjustment is a decrease of \$239,460. Net depreciation expense for wastewater should be increased by \$68,031.

**Table 4-1**

PENNEBROOKE	WW	MFR	Audit	Audit	MFR	Audit	Audit
		12/31/2015	Adjustments	12/31/2015	13-mo avg	Adjustments	13-mo avg
CIAC - Swr Mains/ Gravity		\$ (897,018)	\$ -	\$ (897,018)	\$ (897,018)	\$ -	\$ (897,018)
CIAC-Sewer S&I Gen Plt		-	-	-	-	-	-
AA of CIAC - Swr Mains/ Gravity		707,224	(201,922)	505,302	662,996	(167,660)	495,336
AA of CIAC- S&I Gen Plt		71,800	(71,800)	-	71,800	(71,800)	-
<b>Net Rate Base:</b>		<b>\$ (117,994)</b>	<b>\$ (273,722)</b>	<b>\$ (391,715)</b>	<b>\$ (162,222)</b>	<b>\$ (239,460)</b>	<b>\$ (401,682)</b>
CIAC Amort Exp - Swr Mains/Gravity		\$ (87,964)	\$ 68,031	\$ (19,934)			
CIAC Amort Exp - Swr S&I Gen Plt		-	-	-			
<b>Amortization Expense:</b>		<b>\$ (87,964)</b>	<b>\$ 68,031</b>	<b>\$ (19,934)</b>			

## **Finding 5: Accumulated Deferred Income Taxes**

**Audit Analysis:** In Order No. PSC-16-0013-PAA-SU, issued January 6, 2016, from Docket 150102-WU, the appropriate ratemaking treatment for Sandalhaven's ADITs for taxes paid on plant capacity charges was discussed. The Commission determined that the debit ADITs paid on the plant capacity charges were disallowed for ratemaking purposes, citing paragraph (b)(4)(i) of the IRS Treasury Regulation 1.118-2, which clearly demonstrates that plant capacity charges are non-taxable CIAC if the charges were approved within 8 ½ months from the in-service date.

For this proceeding, we determined the Utility's ADIT debit balances for taxes paid on plant capacity fees received from developers as shown in Table 5-1 following this finding.

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** The analyst needs to determine the appropriate balance for Accumulated Deferred Income Taxes.

**Table 5-1**

<b>DEFERRED DEBIT TAP FEE POST 2000</b>				
	<b>Year</b>	<b>State</b>	<b>Federal</b>	<b>Total</b>
Cypress Lake	2014	\$ 10,367	\$ 61,019	\$ 71,387
	2015	\$ 10,367	\$ 61,019	\$ 71,387
				\$ 142,774
Eagle Ridge	2014	\$ 2,684	\$ 17,189	\$ 19,873
	2015	\$ 2,684	\$ 17,189	\$ 19,873
				\$ 39,746
Labrador	2014	\$ 19	\$ 110	\$ 129
	2015	\$ 19	\$ 110	\$ 129
				\$ 258
Lake Placid	2014	\$ 3,693	\$ 21,576	\$ 25,269
	2015	\$ 3,693	\$ 21,576	\$ 25,269
				\$ 50,538
Longwood	2014	\$ 535	\$ 3,119	\$ 3,654
	2015	\$ 535	\$ 3,119	\$ 3,654
				\$ 7,309
LUSI	2014	\$ 333,882	\$ 1,950,474	\$ 2,284,356
	2015	\$ 333,882	\$ 1,950,474	\$ 2,284,356
				\$ 4,568,712
Mid County	2014	\$ 21,795	\$ 127,326	\$ 149,122
	2015	\$ 21,795	\$ 127,326	\$ 149,122
				\$ 298,244
Pennbrooke	2014	\$ 1,286	\$ 7,516	\$ 8,802
	2015	\$ 1,286	\$ 7,516	\$ 8,802
				\$ 17,604
Sandalhaven	2014	\$ -	\$ -	\$ -
	2015	\$ 90,347	\$ 527,791	\$ 618,138
				\$ 618,138
Sanlando	2014	\$ 17,556	\$ 102,612	\$ 120,168
	2015	\$ 17,556	\$ 102,612	\$ 120,168
				\$ 240,336
Tierra Verde	2014	\$ 5,909	\$ 34,521	\$ 40,430
	2015	\$ 5,909	\$ 34,521	\$ 40,430
				\$ 80,859
UIF	2014	\$ 3,955	\$ 23,101	\$ 27,056
	2015	\$ 3,955	\$ 23,101	\$ 27,056
				\$ 54,112
<b>Grand Total of Tap Fee Post 2000 for 2014</b>				\$ 2,750,246
<b>Grand Total of Tap Fee Post 2000 for 2015</b>				\$ 3,368,384

**Finding 6: Operations and Maintenance Expense - Sanlando**

**Audit Analysis:** We obtained Sanlando's trial balance for the twelve months ending December 31, 2015. We verified that the MFR Schedules B-5 and B-6 reflected O&M expenses of \$2,097,775 for water and \$2,030,785 for wastewater.

We reviewed the transactions and recommend the following adjustments for the test year.

1. NARUC Account 720-Materials and Supplies - this account needs to be decreased by \$12,999 to remove extraordinary expenses. Per the Utility the original project was installed in 1991. The Utility believes that this amount should be fully depreciated at this time. Audit staff requested verification on this retirement. As of December 19, 2016, the Utility has not provided the verification.

See Table 6-1 for details reflected in the adjustments above

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** We refer this to the analyst to verify the retirement.

**Table 6-1**

**Account 720 - Materials & Supplies**

NARUC						
Account	DESCRIPTION	DATE	NET	Month	Year	Comment
720	RCL DEF MAINT TO EXPENSE	9/30/2015	\$ 10,890	9	2015	Demolition & complete removal of water steel tank down to slab Hauling grit and sand from the above demolition (remove).
720	RCL DEF MAINT TO EXPENSE	9/30/2015	\$ 2,109	9	2015	
<b>Total</b>			<b>\$ 12,999</b>			

### **Finding 7: Taxes Other than Income - Pennbrooke**

**Audit Analysis:** Pennbrooke's MFR Schedule B-15 reflected real estate and personal property taxes of \$16,400 for water and \$13,665 for wastewater. After tracing the property taxes to supporting documentation, we noted that a 2006 delinquent tax bill in the amount \$1,695 was paid in 2015. In addition, we determined that a tax bill of \$110 was recorded twice. We recommend an adjustment to decrease TOTI by \$1,805 (\$1,695 + \$110), \$985 for water and \$820 for wastewater.

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** Pennbrooke's water TOTI balance should be decreased by \$985 and its wastewater TOTI balance should be decreased by \$820.

## **Finding 8: Transportation**

**Audit Analysis:** In prior rate cases, each Florida Utility has taken the 13-month or simple average of the cost of the vehicles and its accumulated depreciation, depreciation expense, and the associated transportation costs, and allocated each vehicle based on the payroll allocation used for the employee assigned to the vehicle. Each Florida Utility uses the ratio of its ERC per system to the total ERCs for the State of Florida for pool vehicles and special equipment.

In the Company provided schedules applicable to the current filings, audit staff noted the following errors.

1. The support for pool vehicles and special equipment was not provided.
2. The calculation for determining transportation expense per vehicle was not provided.
3. The employees on the payroll allocation worksheet did not agree with the list of operators provided with the payroll information.

In addition, the MFR adjustments for vehicles in plant, accumulated depreciation, and depreciation expense were to allocate common plant between water and wastewater. There were no MFR adjustments for transportation expense.

**Effect on the General Ledger:** We defer this issue to the analyst.

**Effect on the Filing:** We defer this issue to the analyst.

## **Finding 9: Allocated Plant, Accumulated Depreciation, and Depreciation Expense**

**Audit Analysis:** Audit staff reviewed the MFR rate base schedules, and noted that the corporate and regional levels did not reflect the Commission Ordered Adjustments for plant, accumulated depreciation, and depreciation expense for each system. These adjustments from prior orders have not been recorded on the Utility's books. We calculated the adjustments by utilizing the restatement schedules provided by the Utility.

We also verified that the Phoenix Project depreciation life was ten years as per Commission Order No. PSC-14-0521-FOF-WS.

We reviewed plant, accumulated depreciation, and depreciation expense for corporate (102), regional (855), and UA balances for each water and wastewater system. We allocated the corporate and regional balances, based upon the appropriate ERCs. We noted that there were no MFR adjustments for allocated plant, but adjustments were noted for the phoenix project. The adjustment for the phoenix project was to account for the difference between the Commission ten year depreciation life and the Utility's eight year depreciation life.

Tables 9-1 and 9-2 following this finding detail the adjustments to plant, accumulated depreciation, and depreciation expense.

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** The total adjustment for the 13-month average rate base for water is an increase of \$379,306. The total adjustment for 13-month average rate base for wastewater is an increase of \$223,203. The total adjustment for depreciation expense for water is a decrease of \$46,722. The total adjustment for depreciation expense for wastewater is a decrease of \$3,663.

**Table 9-1**

<b>Plant in Service Net of Accumulated Depreciation</b>							
<b>County</b>	<b>102</b>	<b>855</b>	<b>Totals</b>	<b>13 Month Average UA Ledger</b>	<b>Audit Variance</b>	<b>Audit Adj. Water</b>	<b>Audit Adj. Wastewater</b>
Cypress Lakes	\$ 69,684	\$ 21,468	\$ 91,152	\$ 78,828	\$ 12,325	\$ 6,322	\$ 6,002
Eagle Ridge	\$ 72,141	\$ 21,961	\$ 94,102	\$ 109,251	\$ (15,149)	\$ -	\$ (15,149)
Labrador	\$ 42,945	\$ 13,201	\$ 56,146	\$ 48,691	\$ 7,455	\$ 3,742	\$ 3,713
Lake Utility Services, Inc.	\$ 432,691	\$ 133,434	\$ 566,125	\$ 479,792	\$ 86,332	\$ 65,941	\$ 20,392
Lake Placid	\$ 6,519	\$ 1,625	\$ 8,144	\$ 6,197	\$ 1,947	\$ 967	\$ 980
Longwood	\$ 47,807	\$ 14,744	\$ 62,550	\$ 75,101	\$ (12,551)	\$ -	\$ (12,551)
Mid County	\$ 159,858	\$ 48,953	\$ 208,811	\$ 145,158	\$ 63,653	\$ -	\$ 63,653
Pennbrooke	\$ 77,879	\$ 23,689	\$ 101,568	\$ 88,732	\$ 12,836	\$ 7,002	\$ 5,834
Sandalhaven	\$ 34,842	\$ 10,672	\$ 45,514	\$ 50,768	\$ (5,254)	\$ -	\$ (5,254)
Sanlando	\$ 711,571	\$ 216,952	\$ 928,523	\$ 695,918	\$ 232,605	\$ 128,910	\$ 103,695
Tierra Verde	\$ 59,151	\$ 18,198	\$ 77,349	\$ 93,205	\$ (15,856)	\$ -	\$ (15,856)
Utility's Inc of FL.	\$ 275,447	\$ 83,959	\$ 359,406	\$ 125,239	\$ 234,167	\$ 166,422	\$ 67,744
<b>Total Effect on Rate Base</b>	<b>\$ 1,990,535</b>	<b>\$ 608,856</b>	<b>\$ 2,599,391</b>	<b>\$ 1,996,882</b>	<b>\$ 602,509</b>	<b>\$ 379,306</b>	<b>\$ 223,203</b>



**Table 9-2**

Depreciation Expense									
County	102	855	Total	UA Ledger	Audit Variance	MFR Adj	Audi Adj	Audit Adj. Water	Audit Adj. Wastewater
Cypress Lakes	\$ 24,257	\$ 923	\$ 25,179	\$ 2,776	\$ 22,403	\$ (4,981)	\$ 27,384	\$ 14,048	\$ 13,336
Eagle Ridge	\$ 24,821	\$ 1,756	\$ 26,577	\$ 34,809	\$ (8,232)	\$ (5,159)	\$ (3,073)	\$ -	\$ (3,073)
Labrador	\$ 14,667	\$ 555	\$ 15,222	\$ 22,456	\$ (7,234)	\$ (3,115)	\$ (4,119)	\$ (2,068)	\$ (2,051)
Lake Utility Services, Inc	\$ 150,618	\$ 11,025	\$ 161,642	\$ 229,749	\$ (68,106)	\$ (30,336)	\$ (37,770)	\$ (28,849)	\$ (8,921)
Lake Placid	\$ 2,821	\$ 204	\$ 3,024	\$ 3,942	\$ (918)	\$ (547)	\$ (371)	\$ (184)	\$ (187)
Longwood	\$ 16,641	\$ 1,218	\$ 17,859	\$ 23,643	\$ (5,784)	\$ (3,520)	\$ (2,264)	\$ -	\$ (2,264)
Mid County	\$ 55,001	\$ 4,032	\$ 59,033	\$ 46,299	\$ 12,734	\$ (6,876)	\$ 19,610	\$ -	\$ 19,610
Pennbrooke	\$ 26,795	\$ 1,957	\$ 28,753	\$ 40,811	\$ (12,058)	\$ (5,560)	\$ (6,498)	\$ (3,545)	\$ (2,953)
Sandalhaven	\$ 12,128	\$ 882	\$ 13,010	\$ 16,797	\$ (3,787)	\$ (2,493)	\$ (1,294)	\$ -	\$ (1,294)
Sanlando	\$ 244,824	\$ 17,936	\$ 262,760	\$ 320,586	\$ (57,825)	\$ (43,609)	\$ (14,216)	\$ (7,879)	\$ (6,338)
Tierra Verde	\$ 20,590	\$ 1,504	\$ 22,094	\$ 28,900	\$ (6,806)	\$ (4,292)	\$ (2,514)	\$ -	\$ (2,514)
Marion	\$ 6,205	\$ 449	\$ 6,654	\$ 9,845	\$ (3,191)	\$ (1,259)	\$ (1,932)	\$ (1,696)	\$ (236)
Orange	\$ 3,103	\$ 224	\$ 3,327	\$ 4,983	\$ (1,656)	\$ (625)	\$ (1,031)	\$ (1,031)	\$ -
Pasco	\$ 40,334	\$ 2,951	\$ 43,285	\$ 62,840	\$ (19,555)	\$ (8,287)	\$ (11,268)	\$ (7,858)	\$ (3,410)
Pinellas	\$ 4,231	\$ 311	\$ 4,542	\$ 6,871	\$ (2,329)	\$ (866)	\$ (1,463)	\$ (1,463)	\$ -
Seminole	\$ 40,898	\$ 3,007	\$ 43,905	\$ 61,902	\$ (17,997)	\$ (8,431)	\$ (9,566)	\$ (6,197)	\$ (3,369)
<b>Total Effect for Depreciation Expense</b>	<b>\$ 687,933</b>	<b>\$ 48,933</b>	<b>\$ 736,867</b>	<b>\$ 917,207</b>	<b>\$ (180,341)</b>	<b>\$ (129,956)</b>	<b>\$ (50,385)</b>	<b>\$ (46,722)</b>	<b>\$ (3,663)</b>

## **Finding 10: Allocated Operations and Maintenance Expense**

**Audit Analysis:** Audit staff reconciled the allocated expenses from the corporate and regional offices to the UA ledgers for each Florida system. We reviewed the corporate and regional expense accounts, and calculated the effect on each system's O&M expense based on ERCs. We also removed disallowed expenses such as Account No. 5795 – Contributions, Account No. 5870 – Holiday Events/Picnics, and Account No. 5875 – Kitchen Supplies. Table 10-1 following this finding summarizes our adjustments.

We also noted that Mid-County had an O&M increase of \$57,334 and Sanlando had an O&M increase of \$64,901. We requested the Utility to provide an explanation, and we received a ERC schedule which had smaller allocation percentages. However, upon further review, we noted that the sum of the ERCs per system did not agree with the total ERCs applicable to Florida. Audit staff's calculation of ERCs agreed the sum of each system's ERC to the Florida total. We defer this issue to the analyst.

In addition, we noted that the MFRs did not have adjustments relating to allocated O&M expenses.

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** Water expenses should be increased by \$10,510 and wastewater expenses should be increased by \$61,143 pending the outcome of the Mid-County and Sanlando increases.

**Table 10-1**

**Summary of Allocated Expense Adjustments**

<u>System</u>	<u>102</u>	<u>755</u>	<u>802</u>	<u>855</u>	<u>Total</u>	<u>UA Ledger</u>	<u>Disallowed</u>	<u>Audit Variance</u>	<u>Audit Adj. Water</u>	<u>Audit Adj. Wastewater</u>
Cypress	\$ 63,248	\$ 3	\$ 416	\$ 5,898	\$ 69,565	\$ 72,634	\$ 541	\$ (3,610)	\$ (1,852)	\$ (1,758)
Eagle Ridge	\$ 64,702	\$ 3	\$ 426	\$ 6,034	\$ 71,164	\$ 74,923	\$ 585	\$ (4,345)	\$ -	\$ (4,345)
Labrador	\$ 38,894	\$ 2	\$ 256	\$ 3,627	\$ 42,778	\$ 44,741	\$ 333	\$ (2,295)	\$ (1,152)	\$ (1,143)
Lake Utility	\$ 393,461	\$ 20	\$ 2,588	\$ 36,691	\$ 432,759	\$ 443,612	\$ 3,367	\$ (14,220)	\$ (10,862)	\$ (3,359)
Lake Placid	\$ 7,275	\$ 0	\$ 48	\$ 678	\$ 8,002	\$ 7,856	\$ 62	\$ 83	\$ 41	\$ 42
Longwood	\$ 43,402	\$ 2	\$ 285	\$ 4,047	\$ 47,736	\$ 50,869	\$ 393	\$ (3,525)	\$ -	\$ (3,525)
Mid-County	\$ 143,918	\$ 7	\$ 946	\$ 13,421	\$ 158,292	\$ 99,655	\$ 1,302	\$ 57,334	\$ -	\$ 57,334
Pennbrooke	\$ 69,832	\$ 3	\$ 459	\$ 6,512	\$ 76,806	\$ 80,796	\$ 598	\$ (4,587)	\$ (2,502)	\$ (2,085)
Sandalhaven	\$ 31,383	\$ 2	\$ 206	\$ 2,927	\$ 34,518	\$ 36,157	\$ 269	\$ (1,908)	\$ -	\$ (1,908)
Sanlando	\$ 639,942	\$ 32	\$ 4,208	\$ 59,677	\$ 703,859	\$ 633,482	\$ 5,476	\$ 64,901	\$ 35,968	\$ 28,933
Tierra Verde	\$ 53,633	\$ 3	\$ 353	\$ 5,001	\$ 58,990	\$ 62,205	\$ 459	\$ (3,674)	\$ -	\$ (3,674)
UIF - Marion	\$ 16,004	\$ 1	\$ 105	\$ 1,492	\$ 17,602	\$ 18,583	\$ 137	\$ (1,117)	\$ (981)	\$ (137)
UIF - Orange	\$ 7,948	\$ 0	\$ 52	\$ 741	\$ 8,742	\$ 9,244	\$ 68	\$ (570)	\$ (570)	\$ -
UIF - Pasco	\$ 105,328	\$ 5	\$ 693	\$ 9,822	\$ 115,849	\$ 121,697	\$ 488	\$ (6,337)	\$ (4,420)	\$ (1,918)
UIF - Pinellas	\$ 11,010	\$ 1	\$ 72	\$ 1,027	\$ 12,109	\$ 12,747	\$ 94	\$ (732)	\$ (732)	\$ -
UIF - Seminole	\$ 107,154	\$ 5	\$ 705	\$ 9,992	\$ 117,856	\$ 120,676	\$ 917	\$ (3,737)	\$ (2,421)	\$ (1,316)
<b>Total Effect on O&amp;M Expenses</b>	<b>\$ 1,797,132</b>	<b>\$ 89</b>	<b>\$ 11,818</b>	<b>\$ 167,588</b>	<b>\$ 1,976,627</b>	<b>\$ 1,889,876</b>	<b>\$ 15,090</b>	<b>\$ 71,662</b>	<b>\$ 10,519</b>	<b>\$ 61,143</b>

## **Finding 11: Payroll, Benefits, and Taxes**

**Audit Analysis:** The Company allocates costs monthly to all divisions. In prior rate cases, the Company provided payroll schedules by employee. In these schedules, the Company allocated the most current annualized salary and allocated the salary, benefits, and taxes using the appropriate ERC allocation factor based on division or the employees' duties and time spent at each division. The schedule was then compared to the costs recorded in the ledger by division.

The Company did not provide payroll schedules as described above to audit staff. We received the following.

1. The 2015 annual payroll data exported from the Utility's payroll system for earnings and hours.
2. A schedule to show SUI, SDI, and FUTA parameters by state for 2014 and 2015.
3. A cost of benefits schedule for 163 employees also exported from the Utility's payroll system instead of the calculation of health and other benefits per employee.
4. 2015 W-2s and check stubs from the 12/31/2015 pay period and the latest pay period in 2016 for each employee.
5. The employees on the payroll allocation worksheet did not agree with the list of operators provided with the payroll information.

In addition, we received the MFR Schedules B-3, B-5, B-6, B-7, B-8 and B-15 in excel format for each system, which shows the MFR adjustments for annualized and proforma salaries and payroll taxes. There were no other determinants except for the system's trial balance.

**Effect on the General Ledger:** We defer this issue to the analyst.

**Effect on the Filing:** We defer this issue to the analyst.

Exhibits

**Exhibit 1: Consolidated Rate Base - Water**

Schedule of Water Rate Base - Consolidated

Florida Public Service Commission

Company: Utilities, Inc. of Florida  
Docket No.: 160101-WS  
Schedule Year Ended: 12/31/2015  
Interim [ ] Final [X]  
Historic [X] Projected [ ]

Schedule: A-1  
Page 1 of 1  
Preparer: Deborah Swain

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

Line No.	(1) Description	(2) Average Amount Per Books	(3) A-3 Utility Adjustments	(4) Adjusted Utility Balance	(5) Consolidating Adjustments	(6) Consolidated Utility Balance	\$
1	Utility Plant In Service	\$ 95,650,049	\$ (6,144,379) (A)	\$ 89,505,670		\$ 89,505,670	\$
2							
3	Utility Land & Land Rights	262,337	- (A)	262,337		262,337	
4							
5	Less: Non-Used & Useful Plant	-	- (B)	-		-	
6							
7	Construction Work in Progress	889,559	(889,559) (C)	-		-	
8							
9	Less: Accumulated Depreciation	(38,771,613)	16,846,968 (D)	(21,924,645)		(21,924,645)	
10							
11	Less: CIAC	(35,337,116)	1,021,414 (E)	(34,315,702)		(34,315,702)	
12							
13	Accumulated Amortization of CIAC	18,558,765	(1,141,761) (E)	17,417,004		17,417,004	
14							
15	Acquisition Adjustments	68,470	(68,470) (F)	0		0	
16							
17	Accum. Amort. of Acq. Adjustments	58,415	(58,415) (F)	0		0	
18							
19	Advances For Construction	(37,756)	-	(37,756)		(37,756)	
20							
21	Working Capital Allowance	-	963,526 (G)	963,526	(4,952)	958,574	
22							
23	Total Rate Base	\$ 41,341,110	\$ 10,529,324	\$ 51,870,434	\$ (4,952)	\$ 51,865,482	
24							

## Exhibit 2: Consolidated Rate Base - Wastewater

Schedule of Wastewater Rate Base - Consolidated

Florida Public Service Commission

Company: Utilities, Inc. of Florida  
Docket No.: 160101-WS  
Schedule Year Ended: 12/31/2015  
Interim [ ] Final [X]  
Historic [X] Projected [ ]

Schedule: A-2  
Page 1 of 1  
Preparer: Deborah Swain

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

Line No.	(1) Description	(2) Average Amount Per Books	(3) A-3 Utility Adjustments	(4) Adjusted Utility Balance	(5) Consolidating Adjustments	(6) Consolidated Utility Balance
1	Utility Plant In Service	\$ 96,102,828	\$ 17,233,090 (A)	\$ 113,335,918		\$ 113,335,918
2						
3	Utility Land & Land Rights	\$ 765,732	\$ 9,993 (A)	\$ 775,725		775,725
4						
5	Less: Non-Used & Useful Plant	\$ 17,484	\$ (1,239,487) (B)	\$ (1,222,003)		(1,222,003)
6						
7	Construction Work in Progress	\$ 2,913,936	\$ (2,913,936) (C)	\$ -		-
8						
9	Less: Accumulated Depreciation	\$ (44,417,941)	\$ 4,385,943 (D)	\$ (40,031,998)		(40,031,998)
10						
11	Less: CIAC	\$ (42,526,764)	\$ 99,922 (E)	\$ (42,426,842)		(42,426,842)
12						
13	Accumulated Amortization of CIAC	\$ 27,371,806	\$ (878,626) (E)	\$ 26,493,180		26,493,180
14						
15	Acquisition Adjustments	\$ 818,417	\$ (818,417) (F)	\$ -		-
16						
17	Accum. Amort. of Acq. Adjustments	\$ (108,820)	\$ 108,820 (F)	\$ -		-
18						
19	Advances For Construction	\$ -	\$ -	\$ -		-
20						
21	Working Capital Allowance	\$ -	\$ 1,375,782 (G)	\$ 1,375,782	(99,455)	1,276,327
22						
23	Total Rate Base	\$ 40,936,678	\$ 17,363,084	\$ 58,299,762	\$ (99,455)	\$ 58,200,307
24						

### Exhibit 3: Capital Structure

Schedule of Requested Cost of Capital - Consolidated  
13 Month Average Balance

Florida Public Service Commission

Company: Utilities, Inc. of Florida  
Docket No.: 160101-WS  
Test Year Ended: 12/31/2015  
Interim [ ] Final [x]  
Historical [x] Projected [ ]

Schedule D-1  
Page 1 of 1  
Preparer: John Hoy

Explanation: Provide a schedule which calculates the requested cost of capital on a 13-month average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

(1) Line No.	(1) Class of Capital	(2)	(3)	(4)	(5)	(6)
		Reconciled to Requested Rate Base AYE 12/31/15	Reconciled to Consolidated Rate Base AYE 12/31/15	Ratio	Cost Rate	Weighted Cost
1	Long Term Debt	47,382,803	47,409,074	43.07%	6.70%	2.89%
2	Short Term Debt	4,499,986	4,502,481	4.09%	2.32%	0.10%
3	Preferred Stock	-	-	0.00%	0.00%	0.00%
4	Common Equity	50,389,611	50,417,549	45.81%	10.40%	4.76%
5	Customer Deposits	232,022	209,588	0.19%	2.00%	0.00%
6	Tax Credits - Zero Cost	80,501	46,232	0.04%	0.00%	0.00%
7	Tax Credits - Weighted Cost	-	-	0.00%	0.00%	0.00%
8	Accumulated Deferred Income Tax	7,585,272	7,480,865	6.80%	0.00%	0.00%
9	Other (Explain)	-	-		0.00%	0.00%
10						
11	Total	110,170,196	110,065,789	100.00%		7.75%

12  
13 Note: The cost of equity is based on the leverage formula in effect pursuant to Order No. PSC-15-0259-PAA-WS

14

15 Note: Long term debt, short term debt, preferred stock, and common equity are actual for UIF's parent company, Utilities, Inc.

## Exhibit 4: Consolidated Net Operating Income - Water

Schedule of Water Net Operating Income - Consolidated

Florida Public Service Commission

Company: Utilities, Inc. of Florida  
Docket No.: 160101-WS  
Test Year Ended: 12/31/2015  
Interim  Final   
Historic  Projected

Schedule: B-1  
Page 1 of 1  
Preparer: Deborah Swain

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues
1	OPERATING REVENUES	\$ 13,336,372	\$ 313,247 (A)	\$ 13,649,620	\$ 2,721,001 (A)	\$ 16,370,621
2						
3	Operation & Maintenance	6,567,028	161,390 (B)	6,728,418	- (B)	6,728,418
4						
5	Depreciation, net of CIAC Amort.	2,775,996	(359,505) (C)	2,416,491	- (C)	2,416,491
6						
7	Amortization	(20,484)	20,484 (D)	-	- (D)	-
8						
9	Taxes Other Than Income	1,537,369	59,149 (E)	1,596,518	122,446 (E)	1,718,964
10						
11	Provision for Income Taxes	794,304	(33,420) (F)	760,884	728,686 (F)	1,489,570
12						
13	OPERATING EXPENSES	11,654,214	(151,903)	11,502,310	851,132	12,353,443
14						
15	NET OPERATING INCOME	\$ 1,682,158	\$ 465,150	\$ 2,147,309	\$ 1,869,869	\$ 4,017,178
16						
17						
18	RATE BASE	\$ 41,341,110	\$ 10,529,324	\$ 51,870,434	\$ (4,952)	\$ 51,865,482
19						
20						
21	RATE OF RETURN			4.14%		7.75%
22						



### Exhibit 5: Consolidated Net Operating Income - Wastewater

Schedule of Wastewater Net Operating Income - Consolidated

Florida Public Service Commission

Company: Utilities, Inc. of Florida  
Docket No.: 160101-WS  
Test Year Ended: 12/31/2015  
Interim [ ] Final [X]  
Historic [X] Projected [ ]

Schedule: B-2  
Page 1 of 1  
Preparer: Deborah Swain

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues
1	OPERATING REVENUES	\$ 15,094,296	\$ 535,972 (A)	\$ 15,630,268	\$ 4,194,451 (A)	\$ 19,824,720
2						
3	Operation & Maintenance	7,654,406	1,110,689 (B)	8,765,096	- (B)	8,765,096
4						
5	Depreciation, net of CIAC Amort.	2,234,330	620,882 (C)	2,855,212	- (C)	2,855,212
6						
7	Amortization	(7)	7 (D)	-	- (D)	-
8						
9	Taxes Other Than Income	1,309,659	517,970 (E)	1,827,628	188,751 (E)	2,016,379
10						
11	Provision for Income Taxes	673,520	(682,615) (F)	(9,095)	1,685,009 (F)	1,675,914
12						
13	OPERATING EXPENSES	11,871,908	1,566,932	13,438,841	1,873,760	15,312,601
14						
15	NET OPERATING INCOME	\$ 3,222,388	\$ (1,030,960)	\$ 2,191,428	\$ 2,320,692	\$ 4,512,119
16						
17						
18	RATE BASE	\$ 40,936,678	\$ 17,363,084	\$ 58,299,762	\$ (99,455)	\$ 58,200,307
19						
20						
21	RATE OF RETURN			3.76%		7.75%
22						

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.

DOCKET NO. 160101-WS

DATED: March 20, 2017

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the testimony of Debra M. Dobiac on behalf of the staff of the Florida Public Service Commission was electronically filed with the Office of Commission Clerk, Florida Public Service Commission, and copies were furnished by electronic mail to the following on this 20th day of March, 2017.

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